

## Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-10 IO-11 ISO-00 SP-02 AID-05 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 PA-02 PRS-01 AGR-10 /115 R

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TO USMISSION GENEVA

INFO AMEMBASSY BRASILIA

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E.O. 11652: N/A

TAGS: GATT, ETRD, BR

SUBJECT: NEW BRAZILIAN TRADE MEASURES

REF: BRASILIA 10428 OF DECEMBER 3, 1975

REFTEL IS HEREWITHE REPEATED FOR YOUR INFORMATION.

1. SUMMARY: AS A RESULT OF A DISAPPOINTING TRADE PERFORMANCE IN OCTOBER, ECONOMIC OFFICIALS WERE THROWN INTO ACTION AND ANNOUNCED ANOTHER SERIES OF MEASURES TO CONTAIN IMPORTS AND STIMULATE EXPORTS. EXPORTS IN OCTOBER AMOUNTED TO ONLY 629 MILLION DOLLARS, 18 PERCENT BELOW THE SEPTEMBER FIGURE AND 15 PERCENT LOWER THAN TOTAL OCTOBER 1974 EXPORTS. IMPORTS, ON THE OTHER HAND, WHICH AMOUNTED TO 1,098 MILLION DOLLARS, HAVE UNCLASSIFIED

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REMAINED ON A STEADY GROWTH PATH. THE TRADE DEFICIT

THROUGH OCTOBER THUS CAME TO 3,046 MILLION DOLLARS,  
WELL ABOVE EXPECTATIONS--EVEN THOUGH BELOW THE HIGH OF  
4,189 MILLION DOLLARS DURING THE COMPARABLE PERIOD OF 1974.  
ON THE IMPORT SIDE, AMONG THE MEASURES TAKEN WAS TO EXTEND

THE PRIOR DEPOSIT TO 360 DAYS FROM 180 DAYS AND TO MAKE IT  
APPLICABLE TO A BROADER CATEGORY OF IMPORTS, EXCEPT THOSE  
FROM LAFTA. ON THE EXPORT SIDE, IT WAS DECREED THAT  
UNUTILIZED ICM (CIRCULATION TAX) CREDITS MAY NOW BE

CLAIMED AGAINST DOMESTIC IPI (INDUSTRIAL TAX)  
LIABILITIES. NEW EXPORT CREDIT FACILITIES WERE ALSO  
CREATED. END SUMMARY.

2. THE OCTOBER TRADE FIGURES, PARTICULARLY EXPORTS,  
DOOMED ANY REMAINING HOPE THAT THE TRADE PERFORMANCE  
DURING THE LAST QUARTER WOULD BE SUCH AS TO KEEP THE  
TRADE DEFICIT FOR THE YEAR BELOW 3.0 BILLION DOLLARS  
(AS LATE AS MID-YEAR AUTHORITIES WERE PREDICTING A  
TRADE DEFICIT OF 2.5 BILLION DOLLARS). WITH EXPORTS  
AMOUNTING TO 629 MILLION DOLLARS AND IMPORTS TO  
1,089 MILLION DOLLARS DURING OCTOBER, THE CUMULATIVE  
TOTALS (JAN/OCT) WERE INCREASED TO 7,215 MILLION  
DOLLARS AND 10,172 MILLION DOLLARS, RESPECTIVELY,  
LEAVING A TRADE DEFICIT TO DATE OF 3,046 MILLION  
DOLLARS. ACCORDING TO GOVERNMENT OFFICIALS THE TRADE  
DEFICIT FOR THE YEAR MAY REACH 3.7-3.8 BILLION DOLLARS,  
WITH EXPORTS UNDER 9.0 BILLION DOLLARS AND IMPORTS  
OVER 12.0 BILLION DOLLARS.

3. THE PERFORMANCE OF EXPORTS HAS BEEN WEAKENING SINCE  
AROUND MID-YEAR. THE REASON FOR THIS IS PRIMARILY  
DECLINING PRICES AND VOLUMES FOR BRAZIL'S THREE MAJOR  
AGRICULTURAL COMMODITIES; SUGAR, COFFEE AND SOYBEANS.  
EXPORTS WERE UP 36 PERCENT IN VALUE THROUGH JUNE (AS  
COMPARED WITH THE COMPARABLE PERIOD OF 1974). THEY  
DROPPED TO 33 PERCENT THROUGH JULY, 29 PERCENT THROUGH  
AUGUST, 23 PERCENT THROUGH SEPTEMBER AND 18 PERCENT  
THROUGH OCTOBER. IMPORTS HAVE AVERAGED ABOUT 1.0  
BILLION DOLLARS PER MONTH THROUGH OCTOBER.

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4. THE MEASURES ANNOUNCED BY THE AUTHORITIES WERE  
AS FOLLOWS (TRANSLATION OF THE DECREES AND RESOLUTIONS  
WILL BE TRANSMITTED BY SEPARATE MESSAGE):

IMPORT MEASURES

A) THE PERIOD DURING WHICH THE EXISTING PRIOR IMPORT  
DEPOSIT HAS TO BE MAINTAINED AT THE CENTRAL BANK HAS

BEEN INCREASED TO 360 DAYS FROM 180 DAYS; B) THE PRIOR DEPOSIT WILL AFFECT ALL IMPORTS, INCLUDING THOSE BY THE PUBLIC SECTOR, AND THE PREVIOUS RESTRICTION TO THE CATEGORY OF IMPORTS WITH A TARIFF OF 37 PERCENT OR HIGHER HAS BEEN ELIMINATED. AS AN OFFSET, A NUMBER OF PRODUCTS HAVE BEEN EXEMPTED, SUCH AS OIL, FERTILIZERS, ANTIBIOTICS AND CAPITAL EQUIPMENT WHICH ARE FINANCED WITH FOREIGN CREDITS OF A MATURITY OF AT LEAST 5 YEARS. LAFTA CONTINUES TO BE EXEMPTED FROM THE PRIOR DEPOSIT.

C) AN "IMPORTER REGISTRATION" DIRECTORY HAS BEEN

ESTABLISHED, LIKE THE ONE NOW IN EFFECT FOR EXPORTERS, IN ORDER TO MAINTAIN BETTER CONTROL OVER IMPORTS;

D) PUBLIC SECTOR IMPORTS MUST BE REDUCED BY 25 PERCENT IN 1976 FROM THE 1975 LEVEL;

E) FUEL CONSUMPTION BY MINISTRIES MUST BE REDUCED BY 20 PERCENT DURING 1976;

F) CACEX WAS AUTHORIZED TO TURN DOWN, IN EXCEPTIONAL CASES, REQUESTS FOR IMPORT LICENSES WHERE THE IMPORT MAY BE OF A SPECULATIVE NATURE, OR CAUSE OR THREATEN TO CAUSE DAMAGE TO THE BRAZILIAN ECONOMY;

G) IN ORDER TO REDUCE IMPORTS AND STIMULATE THE DEVELOPMENT OF THE LOCAL CAPITAL GOODS INDUSTRY, CERTAIN CAPITAL EQUIPMENT IMPORTS WILL HENCEFORTH ONLY RECEIVE REDUCED FISCAL AND TARIFF INCENTIVES INSTEAD OF TOTAL EXEMPTIONS. LOCAL EQUIPMENT MANUFACTURES HAVE ALSO BEEN GRANTED A TAX CREDIT OF 15 PERCENT, BASED ON THE VALUE OF TOTAL SALES IN THE INTERNAL MARKET.

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#### EXPORT MEASURES

H) THE MINISTRY OF FINANCE IS AUTHORIZED TO ALLOW EXPORTERS TO UTILIZE UNUSED ICM (CIRCULATION TAX) CREDITS ACCUMULATED THROUGH EXPORT TRANSACTIONS AGAINST DOMESTIC IPI (INDUSTRIAL TAX) TAX LIABILITIES. WHERE THESE ICM CREDITS CANNOT THUS BE UTILIZED, THE MINISTRY OF FINANCE MAY MAKE A CASH REIMBURSEMENT;

I) A NEW LINE OF CREDIT HAS BEEN OPENED TO FINANCE EXPORTS (AMOUNT AND TERMS NOT YET SPECIFIED). IN ADDITION, NEW CREDIT FACILITIES HAVE BEEN MADE AVAILABLE FOR THOSE FIRMS WHICH MEET CERTAIN PRE-DETERMINED EXPORT TARGETS;

5. COMMENT: AS THESE MEASURES INDICATE, THE BALANCE OF PAYMENTS--PARTICULARLY THE TRADE DEFICIT--IS A MATTER OF URGENT CONCERN TO ECONOMIC OFFICIALS. WHETHER THESE LATEST ACTIONS ARE SUFFICIENT TO DEAL WITH THIS DIFFICULT PROBLEM REMAINS TO BE SEEN (AN ANALYSIS OF THESE MEASURES IS BEING SUBMITTED BY SEPTEL). IN A REMARK TO THE PRESS, FINANCE MINISTER SIMONSEN WAS QUOTED AS SAYING THAT ALTHOUGH THESE MEASURES ARE "STRONG" THEY ARE DESIGNED TO AVOID THE NEED FOR TAKING STRONGER ACTIONS IN THE FUTURE. INGERSOLL

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